

Message Text

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ACTION EUR-25

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E.O. 11652: GDS

TAGS: EFIN, ELAB, IT, NATO

SUBJECT: AMBASSADOR'S MEETING WITH TREASURY MINISTER

EMILIO COLOMBO

1. SUMMARY. I CALLED ON TREASURY MINISTER COLOMBO ON SEPTEMBER 17 TO TALK ABOUT ITALIAN ECONOMIC SITUATION AND SOME POLITICAL QUESTIONS. COLOMBO WAS REASONABLY OPTMISTIC ABOUT ECONOMIC SITUATION, STRONGLY AGAINST "HISTORIC COMPROMISE" WITH PCI AND IN FAVOR OF CONTINUED FIRM COMMITMENT TO NATO. END SUMMARY.

2. I CONGRATULATED THE MINISTER ON PARLIAMENT'S RELATIVELY QUICK APPROVAL OF JULY TAX PACKAGE AND I EXPRESSED OUR HOPE THAT NEW BROADER USE OF WITHHOLDING TAX MECHANISM WOULD ALSO HELP TO INCREASE BUDGET REVENUES. MINISTER COLOMBO HOPED THAT IT WOULD BE POSSIBLE TO REDUCE CASH BUDGET EXPENDITURES, ALTHOUGH THIS WOULD BE VERY DIFFICULT SINCE LARGE PART OF THESE EXPENDITURES ARE FOR SALARIES. HE DID THINK THAT IT SHOULD AT LEAST BE POSSIBLE TO STABILIZE CURRENT HIGH LEVEL OF BUDGET EXPENDITURES.

3. I TOLD MINISTER THAT RECENT STATEMENTS BY PSI LABOR

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MINISTER BERTOLDI WHICH PREDICTED 1 MILLION UNEMPLOYED

BEFORE END-1974 WOULD SURELY HAVE ADVERSE EFFECT ON INVESTMENT CLIMATE. COLOMBO POINTED OUT THAT, TO SOME EXTENT, BERTOLDI'S STATEMENT HAD BEEN POLITICALLY MOTIVATED SO AS TO PUT PRESSURE ON MONETARY AUTHORITIES TO RELAX CREDIT POLICY. GOI, OF COURSE, RECOGNIZED THAT SOME INCREASE IN UNEMPLOYMENT WAS INEVITABLE AS RESULT OF STABILIZATION PROGRAM BUT COLOMBO DID NOT THINK THAT 1 MILLION UNEMPLOYED WAS LIKELY. ON OTHER HAND, GOVERNMENT WOULD HAVE TO WALK NARROW LINE BETWEEN UNAVOIDABLE INCREASE IN UNEMPLOYMENT AND CORRESPONDING POLITICAL/SOCIAL RISKS.

4. CONCERNING CURRENT LABOR UNION DEMANDS, COLOMBO SAID THAT PROPOSALS FOR LIBERALIZING COST OF LIVING SCALE ADJUSTMENT WOULD COST ABOUT 4,000 TO 6,000 BILLION LIRE. IN OTHER WORDS, GOVERNMENT WAS BEING ASKED TO ACQUIESCE IN INCREASE IN PURCHASING POWER OF THIS AMOUNT ONLY FEW WEEKS AFTER APPROVAL OF 3,000 BILLION LIRE TAX PACKAGE DESIGNED TO DO THE CONTRARY. HE SAID THAT GOVERNMENT SIMPLY COULD NOT ACCEDE TO THESE DEMANDS.

5. MINISTER COLOMBO SAID THAT GOI ESTIMATES ZERO REAL GROWTH IN GNP NEXT YEAR, UNLESS ITALY IS ABLE TO INCREASE ITS EXPORTS. THIS WOULD DEPEND, IN TURN, UPON GROWTH OF ITALY'S FOREIGN MARKETS AND ON ECONOMIC POLICIES OF OTHER GOVERNMENTS. HE HOPED THAT US ECONOMIC POLICY WOULD NOT BE SO RESTRICTIVE AS TO LEAD TO SERIOUS RECESSION.

6. COLOMBO THOUGHT THAT IMPROVEMENT IN ITALY'S BALANCE OF PAYMENTS IN JULY AND AUGUST WAS ENCOURAGING, BUT IT WOULD NOT BE PRUDENT YET TO CONCLUDE THAT IMPROVEMENT IS PERMANENT. STILL, GOI IS HOPEFUL OF ELIMINATION OF NON-OIL DEFICIT BY MID-1975. EVEN SO, OIL DEFICIT OF ABOUT 3,500 BILLION LIRE WOULD STILL CREATE FINANCING PROBLEM. IF OPEC COUNTRIES INSIST UPON INCREASING CRUDE OIL PRICES, ITALY WILL BE IN FURTHER TROUBLE.

7. COLOMBO SAID THAT POSSIBLE BREAK-AWAY OF PART OF CONFIDENTIAL

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CISL TO FORM NEW LABOR CONFEDERATION WAS STILL BEING CONSIDERED, NOTWITHSTANDING RECENT DEATH OF SIRONI. HE DID NOT KNOW HOW IT WOULD FINALLY TURN OUT.

8. THE MINISTER DESCRIBED AS AN "INVENTION" OF THE PRESS RECENT PARIS "HERALD TRIBUNE" ARTICLE BY RESTON WHICH ALLEGES THAT FRENCH AND GERMANS THINK GOI SHOULD ACQUIESE IN ENTRY OF PCI INTO GOVERNMENT.

9. ON NATO QUESTION, COLOMBO SAID THAT HE CLEARLY
RECOGNIZED THAT ITALY HAD INTERNATIONAL OBLIGATIONS
WHICH WOULD NOT PERMIT PCI TO ENTER GOVERNMENT. IN
FACT, PCI REALLY SUPPORTED OTHER MILITARY BLOC. VOLPE

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